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The Manufacturers Hanover
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Weekly Commentary, Selected Financial Data, and Business Indicators

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Where's The Beef?

In the past three months, retail food prices at the nation's grocery stores rose 2.6 percent compared with the previous three months. But while this gain is the steepest in years, it is substantially below the 6.9 percent jump in prices which farmers received for the raw foods needed to produce the finished products. However, over the long run, the reverse has been true. The cost of processing, assembling, transportation and distribution has risen much faster than farm prices, pushing down the farm share of people's food bills and substantially increasing the marketing share.

When this is combined with the change in consumer preferences and the increased desire by families to eat away from home, the divergence between retail and farmgate widens further. Of the $173 billion jump in consumer food costs in the past ten years, the marketing bill was responsible for $141 billion. As a result, the cost of processing and distribution surged to 73 cents of each food dollar spent in 1983, compared with 63 cents in 1973 (see chart). This means that overall food price changes have been influenced less and less by changes in farm prices and more by changes in the cost of labor, packaging, transportation, fuel and advertising, among others.

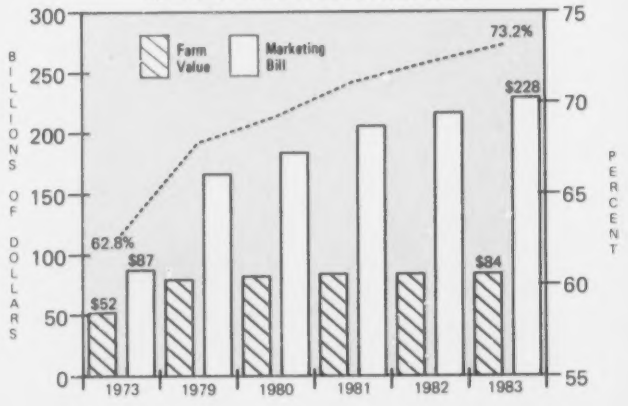
But the rise in marketing costs is not the only culprit behind the widening farm-retail spread. The shift to the away-from-home market—including a doubling in the number of fast food restaurants over the past ten years—and increased preferences for more processed convenience foods are also responsible. In 1973, consumers spent 28 percent of their food budgets on eating outside their homes, but by 1983 this share rose to more than 35 percent.

Not surprisingly, the spread between retail and farmgate is significantly wider in the food away-from-home category owing to higher costs of preparing and serving food. Here, the farm value's share shrank to 16 percent of the check last year, while the marketing portion has more than tripled in dollar terms. The rise in the number of fast food restaurants has been a significant contributor to the widening farm to retail spread, because these outlets are heavy users of packaging materials and are highly labor intensive.

Marketing Takes The Biggest Bite . . .

The marketing value's share varies greatly among different foods depending on the amount of processing needed and the complexities of the distribution process. In general, such animal products as meats, dairy products, poultry and eggs have had the highest ratios of farm value to retail price. By contrast, such highly processed crop products as cereals and bakery goods have the lowest ratios. For example, while 50 to 60 cents of each dollar spent at grocery stores on meat and 70 cents of each dollar spent on eggs goes to the farmer, nearly 90 percent of retail prices of cereal and bakery products and 85 percent of processed fruit and vegetable prices represents processing.

RETAIL FOOD PRICES: FARM AND MARKETING COMPONENTS (BARS) VS. MARKETING COMPONENT AS A % OF RETAIL FOOD PRICES (DOT)



But although there has been a long term decline in farm value's share of the food dollar, in the short run, the marketing portion cushions the wide fluctuations in agricultural prices—up or down. For example, meat prices at grocery stores went up only 4.4 percent between November and February, despite a whopping 21 percent rise at farmgate. On the other hand, egg prices jumped 30 percent at retail while increasing at a slower rate at farmgate. However, this only partially offset the 55 percent surge in egg prices posted in the previous ten months when prices at supermarket counters rose only 20 percent.

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. . . Of Our Food Dollars

The single largest component of every food dollar is the cost of labor. Currently, it accounts for 33 percent, up from 29 percent ten years ago. As in other sectors of the economy, last year's wage increases in the food industry were relatively subdued—advancing 3.8 percent year-over-year—substantially below 1982's 6.2 percent jump. However, the cost of such employee benefits as health insurance and retirement funds has increased at a faster rate than wages and now comprises some 20 percent of total labor costs. In addition, employment in most areas of the food industry has been increasing at a faster pace than in the overall economy. Payrolls at eating and drinking establishments rose an average of five percent per year in the past decade, while employment growth at grocery stores averaged three percent per year. In contrast, all-industry employment expanded only 1.6 percent annually.

However, the number of production workers employed in the manufacturing of food products slipped in 1983 for the fourth year in a row, falling to one of the lowest levels in more than 35 years. This has occurred as a consequence of the implementation of more efficient processing, distributing and packaging techniques. But despite sharply improved productivity in this area over the past decade, most workers were forced to accept lower wages and cuts in benefits in order to avert

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	3/28/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	158.318	– .137	+14.943
Loans to Depository Inst.	1.195	+ .118	+ .298
Float	.504	– .587	– 1.449
Total Reserve Bank Credit	168.978	– .338	+13.503
Treasury Deposits with Federal Reserve Banks	4.358	– .969	+ 1.824
Currency in Circulation	168.263	– .371	+13.490
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.565	+ 2.690	+ 7.600
	3/28/84		
Member Bank Reserves:			
Total Reserves Held	35.318	– .369	– 1.149
Excess (Deficiency)	.672	– .022	+ .208
Net Borrowed Reserves	.333	– .295	+ .267
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/19/84)	536.0	‡	‡
M2 (February '84)	2,222.1	+ 7.3	+ 8.2
M3 (February '84)	2,743.3	+ 8.1	+ 9.0
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Data unavailable due to revisions.

New York Money Market

Offering Rates 3/30/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.25%	9.35%	9.35%
* Federal Agencies	10.05	10.35	10.50
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	10.56	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.34	10.58	11.18

‡Finance Company Paper—Prime

5- 14 days	10.00%
15- 29 days	10.00
30- 59 days	10.00
60- 89 days	10.00
90-179 days	9.80
180-239 days	9.50
240-270 days	9.50

‡* Bankers' Acceptances

May	10.18%
Jun.	10.18
Jul.	10.18
Aug.	10.20
Sep.	10.20
Oct.	10.18

‡Industrial Paper—Prime

30- 89 days	10.00%
90-120 days	10.05

†Federal Funds Effective Rate 10.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,436	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,573	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	5.0	7.6	– 1.3
Change in Consumer Prices (new series)*	Feb '84	4.8%	7.2%	– 1.2%
Change in Producer Prices*	Feb '84	4.8%	7.2%	1.2%
Civilian Employment (Thousands of Persons)†	Feb '84	103,892	103,190	99,172
Unemployment as % of Civilian Labor Force†	Feb '84	7.8%	8.0%	10.4%
Personal Income*	Feb '84	$ 2,923	$ 2,902	$ 2,651
Leading Indicators Composite Index (1967=100)†	Feb '84n	165.9	164.8r	147.4
Industrial Production Index (1967=100) †	Feb '84	159.9r	158.0	138.1
Net Change in Consumer Installment Credit †	Jan '84	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Feb '84n	–$ 10.09	–$ 9.47	–$ 3.37
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Feb '84	2,197	1,976	1,706
New Construction Expenditures*	Jan '84	$ 281.8	$ 277.8	$ 247.9
Total Business Inventories †	Jan '84	$ 522.7	$ 520.7	$ 507.6
Total Business Sales †	Jan '84	$ 402.0	$ 396.7	$ 345.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

further layoffs and plant shutdowns.

Packaging is the second largest marketing cost, accounting for eight percent of consumer food budgets. Last year, spending on packaging materials jumped 4.3 percent primarily due to increased consumer preferences for convenience foods and stepped up traffic at the nation's fast food restaurants. Interestingly, the changing demographic composition of the American population, the rush of women into the labor force, the growing elderly population and the rising number of single-parent households have resulted in an increased appetite for processed convenience foods. The ease of home preparation seems to have outweighed the higher cost.

Recent price trends in the components of the retail food dollar presage another year of relatively modest food price inflation. Agricultural prices are likely to rise only slightly, dampened by an expected rebound in the planted acreage of major crops and stepped up poultry output, which should offset—at least partially—a drop in red meat production. In addition, despite the increased pace of business activity, wage gains should remain moderate (Financial Digest—March 19, 1984) and the stable cost of diesel fuel and heightened competition in both the trucking and railroad industries should help keep transportation costs—representing five percent of consumer food bills—in check. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/14/84)	142,370	– 332	–15,011
New York City (3/21/84)	29,183	– 266	– 9,365
Commercial Paper (3/21/84)	197,488	+ 1,114	+29,368

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/14/84)	228,425	+ 40	NA*
New York City (3/21/84)	60,818	+ 1,258	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/14/84)	583,507	+ 637	NA*
New York City (3/21/84)	132,287	+ 631	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/30/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.96%	– .19	+ 1.04
180-Day Bills†	10.39	– .20	+ 1.21
Longest Bills†	10.66	– .25	+ 1.36
Recent Issues:			
11 1/2s 3/31/86	11.55	NA	
12s 3/31/88	12.07	NA	
11 3/4s 11/15/93	12.44	–0–	
12s 8/15/13	12.52	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (3/29/84)	9.93%	– .08	+ .55
Blue List Total ($ Million)	$1,515	+$ 83	+ $ 192
30-Day Visible Supply ($ Million)	$2,098	–$ 251	– $2,460
Total	$3,613	–$ 168	– $2,268
Corporates:			
Moody's Aa Composite (3/29/84)	13.30%	– .05	+ .97
30-Day Visible Supply ($ Million)	$1,640	+$1,235	+ $1,468
Stocks:			
Dow-Jones Averages:			
Industrials	1,164.89	+ 10.05	+ 34.86
Transportation	510.19	+ 7.00	+ 2.80
Utilities	126.83	– .05	+ 2.25
65 Stocks	456.65	+ 3.98	+ 10.58
Standard and Poor's 500 Stocks	159.18	+ 2.32	+ 6.22
N.Y.S.E. Composite Index	91.67	+ 1.32	+ 3.64
N.Y.S.E. Avg. Daily Vol. for Week (000's)	80,900	– 140	+ 5,160

* 46% Taxable equivalent 18.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/30/84	Week Ago
Overnight	10.31%	10.25%
1 month	10.38	10.63
3 month	10.63	10.75
6 month	10.94	11.06
1 year	11.44	11.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.20%
Long Term (7 to 15 yrs.)	12.45	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/30/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01885	53.05
Canada	.7826	1.2778
Denmark	.1049	9.5350
France	.1254	7.9750
Germany	.3861	2.5898
Italy	.0006179	1618.50
Japan	.004452	224.60
Mexico	.005731	174.50
Netherlands	.3424	2.9205
Switzerland	.4645	2.1528
U.K.	1.4430	.6930

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